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April 18, 2006

AGENDA ITEM 7-C

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Senate Bill 1263 (Alquist)—
As Introduced

Tax Deduction for Long Term Care Insurance

II. PROGRAM: Legislation

III. RECOMMENDATION: Support

This bill would make long-term care insurance more affordable by offering a tax deduction for premiums.

IV. ANALYSIS:

This bill permits most taxpayers to deduct the cost of buying long-term care (LTC) insurance for themselves, their spouses and dependents. The deductions are phased in over several years.

Background

Current personal income tax law allows eligible individuals who itemize their deductions to deduct all medical expenses, including LTC expenses and insurance premiums, exceeding 7.5 percent of adjusted gross income. This reduces the cost of LTC insurance, but only for a few individuals whose medical expenses represent a significant portion of their income.

There have been two basic approaches at the state and federal level to provide tax relief for long-term care expenses. One method is a deduction for the cost of LTC insurance premiums in order to encourage taxpayers to provide for their own future LTC needs. SB 1263 follows this approach, and in 2001 Alquist authored an identical bill in the Assembly that died. The other approach is to offer a tax credit to individuals who are currently caring for elderly family members. A bill enacted in 2000 (AB 2871, Correa) provides a $500 tax credit for eligible caregivers.

The cost of buying LTC insurance may be cost prohibitive for those on a limited income or for those who apply for coverage at an older age when rates are higher. Ultimately, this bill would enable more individuals to purchase coverage and independently provide for their own future without having to spend down their savings as required by Medi-Cal, or rely on other public assistance.

Proposed Changes

This bill allows most taxpayers, beginning in 2007, to claim a personal income tax deduction equal to a percentage of the amount paid for the purchase of long-term care insurance, regardless of the amount of medical expenses incurred. The bill expressly provides that the proposed deduction would apply to participants in the CalPERS Long-Term Care Program. The deduction would be phased in over several years. Specifically:

- 25% for the tax year 2007
- 40% for the tax year 2008
- 55% for the tax year 2009
- 70% for the tax year 2010
- 85% for the tax year 2011
- 100% for the tax year 20012 and subsequent years

The tax deduction would not apply to taxpayers whose adjusted gross income exceeds $100,000 for an individual or $200,000 for a married couple filing jointly. The deduction is not allowed if the employer has paid for more than half of the premium. The deduction applies to coverage purchased for the taxpayer, the taxpayer's spouse or the taxpayer's dependents, and will be in lieu of other deductions or credit otherwise allowed. An eligible dependent may include parents, parents-in-law, and grandparents, if over half of their support was received from the taxpayer.

The Franchise Tax Board would be required to report annually to the Legislature regarding utilization of the deductions authorized by this bill.

Legislative History

2003 AB 1523 (Garcia)—Would have allowed a tax credit for an amount equal to 25 percent of the amount paid or incurred by the taxpayer for long-term care insurance for any family member of the taxpayer, not to exceed $1000 per family member. The bill died in committee. *CalPERS' Position: Support, If Amended*

AB 2044 (Garcia)—Stated the intent of the Legislature to enact a tax credit for the amount paid or incurred by the taxpayer for long-term care or long-term care insurance for any family member of the taxpayer. The bill died at the Desk.

AJR 8 (Mountjoy)—Requested the President and Congress to enact new tax benefits what would allow individuals to deduct the total cost of any premiums paid for a qualified long-term care insurance contract regardless of the income of the taxpayer, the total amount paid by the taxpayer for medical expenses, or the age of the insured individual. The bill failed in committee. *CalPERS' Position: Support*

SB 121 (Margett)—Identical to SB 1691 (below), the bill failed in committee. *CalPERS' Position: Support, If Amended*

2001 AB 64 (Alquist)—Identical to AB 2281 (below), the bill died in committee. *CalPERS' Position: Support*

SB 1691 (Margett)—Would have allowed a credit for 30 percent of the amount paid or incurred by the taxpayer for long-term care or long-term care insurance for the taxpayer or any parent of the taxpayer, up to $300 per individual. The bill died in committee.

2000 AB 864 (Battin)—Would have provided an unspecified tax credit for the cost of Long Term Care for any family member. The bill died in committee.

AB 2281 (Alquist)—Would have allowed most taxpayers to deduct the cost of long-term care insurance for the taxpayer, spouse and dependents. The deduction would have been phased in over 5 years and required the Franchise Tax Board to annually report information about deductions claimed. The bill died in committee. *CalPERS' Position: Support.*

Chapter 105 (AB 2871, Correa)—Established a $500 tax credit for eligible caregiver of elderly family members.

1995 SB 546 (Mello)—Would have provided a 50 percent tax credit for the purchase of LTC insurance plans provided through the California Partnership for Long-Term Care or by CalPERS. The bill died in committee. *CalPERS' Position: Support*

Issues

1. Arguments of Those in Support

   There is no registered support at this time. This bill makes LTC coverage more affordable so more individuals are able to provide for their own LTC needs. The necessity of providing such benefits through public assistance programs would be reduced.

2. Arguments of Those in Opposition

   There is no known opposition at this time. However, the Franchise Tax Board indicated concerns about a previous bill because state and federal differences, with respect to income tax provisions, can lead to confusion and higher rates of taxpayer error. This bill would also reduce tax revenue for the state.

3. This bill may provide offsetting savings to the Medi-Cal program.

   According to the Public Policy Institute of California, five percent of Medi-Cal enrollees account for sixty percent of the cost. Nursing home care accounted for 38 percent of all the costs incurred by this expensive group. Nursing home care accounts for 70 percent of the costs for those in the group designated as elderly. Actual net cost or savings will depend on the number of people who do not receive Medi-Cal, who otherwise would have, because of the purchase of LTC insurance.

4. Legislative Policy Standards

   The Board's Federal Health Policy Priorities for 2005-2006 suggest a support position on efforts to make long-term care more affordable such as tax policies that allow deductions of long-term care insurance premiums and tax credits for caregivers.

V. STRATEGIC PLAN:

This item is not a specific product of the Annual or Strategic Plans, but is part of the regular and ongoing workload of the Office of Governmental Affairs.

VI. RESULTS/COSTS:

Program Costs

This bill would not require any CalPERS program changes. However, by indirectly making long-term care premiums more affordable, current members may be more likely to retain coverage and other individuals may be encouraged to apply. This could enlarge the pool of the CalPERS LTC Plan and contribute towards its stability.

This bill would not result in any direct costs to employers, as the employers do not pay long-term care insurance premiums. Most program participants would realize a tax savings, which would vary based on tax status and premium costs. The average CalPERS long-term care insurance premium is $1,440 per year.

The state would be impacted by a corresponding loss of revenue. However, to the extent that this bill would encourage more individuals to purchase coverage and be personally responsible for their future long-term care needs, there may be offsetting savings for the Medi-Cal program.

Administrative Costs

There is no direct fiscal impact for CalPERS. However, the tax deduction may stimulate a growth in the program.

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